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| FAAE-00 | UTED-00 | VC-00 | FRB-00 | FSI-00 | H-00 | TEDE-00 | |
| INR-00 | VCE-00 | AC-00 | NSAE-00 | NSCE-00 | OMB-00 | NIMA-00 | |
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SUBJECT: IFI'S WELCOME TREASURY ADVISOR, DISCUSS OIL
REVENUE MANAGEMENT, PRGF, AND HIPC

REF: NDJAMENA 402

¶1. (SBU) SUMMARY: The World Bank and International Monetary Fund resident representatives in Chad welcomed the prospect of a resident Treasury Advisor for the Revenue Management College during meetings with a visiting Treasury team, which included the prospective candidate for the mission. The World Bank and IMF also described the need for revisions to the current Revenue Management laws which would address the shortcomings of the current statutes. The IMF representative was optimistic about Chad's chances to receive a favorable review on its PRGF and HIPC programs in the near future. The World Bank, however, is skeptical of a positive assessment in the near-term. The World Bank also discussed its plans to modernize the Ministry of Finance's budgetary practices. The Treasury team has doubts about the feasibility of these plans. END SUMMARY.

¶2. (SBU) On July 11, the candidate for the resident Treasury Advisory position in Chad, Linda Gregory; Treasury Advisor Ken Torp; Office of Technical Assistance Director Michael Ruffner; and E/C officer met with IMF Resident Representative Wayne Camard and World Bank Representative Noel Tshiani to discuss the role of the Treasury Advisor at the Revenue Management College and to hear their views on oil revenue management and the IMF and World Bank programs in the country.

THE IFI'S VIEWS ON THE COLLEGE

¶3. (SBU) Camard and Tshiani both welcomed Gregory and the USG intent to re-insert a resident Treasury Advisor to work with the Oil Revenue Management College. They noted that the College needed to develop greater technical capacity to monitor the allocation of oil revenues and project implementation. Tshiani said that while the College's role was to oversee the execution of projects and not recommend projects, it still required more assistance in streamlining its recommendation and procurement process, which is paper-heavy and needs more computerized approaches.

¶4. (SBU) They also pointed out that the management of expectations has been a critical problem for the College. According to Tshiani, most Chadians do not understand the College's role. The College is essential for assurance of fiscal transparency. This process will result in stronger procurement and project development procedures in the future.

The lack of understanding of the project approval process and its timeline by most Chadians is generating questions from an impatient public, which continues to ask how the oil revenues are being spent.

¶5. (SBU) Tshiani told the Treasury team that the College is

still working to maintain its independence from GOC pressure, and is making some progress. He pointed to the Prime Minister's demand for College member Dobian Assingar to be removed in March after he questioned how new oil revenues will be managed and described the GOC's restraint as an example of the College's independence. (Comment: The Government dropped its pursuit of the issue after our intervention. See Ref. End Comment.) Tshiani also said that the College's 2004 End-of-Year Report does criticize the GOC's usage of oil revenues, which is another demonstration that the College is trying to assert its oversight mandate and independence. (The report has yet to be released publicly, but has been reviewed by World Bank officials privately.) Nevertheless, both representatives noted that the Treasury Advisor would need to encourage the College to be politically independent and resist GOC interference in the College's oversight responsibilities.

CHANGES IN THE REVENUE MANAGEMENT LAWS

16. (SBU) Camard and Tshiani said that given the country's current fiscal problems, the current Revenue Management laws

needed review. They explained that the GOC had a point in noting that the inflexibility of the laws prevented the government from spending on certain priorities, such as government salaries, not technically covered under the laws' priority sectors. Camard also noted that the stabilization fund was proving to be an ineffective mechanism, since it assumed that Chad would be able to provide an excess amount of revenues from oil production, which it has been unable to do thus far.

17. (SBU) The two representatives also addressed the point of whether to open the laws to permit the use of oil revenues for military expenditures. Camard said that the government was facing a problem of keeping its military supplied, housed, and fed. Unless the GOC could provide such items as uniforms, food supplies, and barracks for its military, the country would face a discontented military that would be destabilizing for social and economic improvement. Tshiani also noted the Chadian military requires resources to facilitate the demobilization of its troops, and this activity should be supported by oil revenues.

18. (SBU) However, both representatives admitted revisions in the Revenue Management Laws, and the application of the laws to new revenues, would have to be monitored closely to prevent misuse of the oil revenues. Tshiani pointed out that any changes in one aspect of the law may set a dangerous precedent for revising larger segments of the law. He noted that the government, which is facing pressure from a host of constituencies, will obviously try to change the laws to satisfy them.

THE GOC BUDGET AND STATUS OF PRGF AND HIPC INITIATIVE

19. (SBU) Camard addressed the budgetary situation. He noted that an IMF team that arrived a few days earlier to assess the country's budgetary progress discovered that the management and execution of the budget in the first quarter of the year was extremely poor for non-oil revenues, and stated that the government's approval of projects when revenues did not exist resulted in a revenue shortfall. He noted that the oil revenues, which account for ten to fifteen percent of the overall budget, did not necessarily help the situation, as oil production had actually dropped from 200,000 barrels per day to 170,000 barrels.

10. (SBU) Camard did note the team's finding that following the first quarter, the GOC was much more effective in executing transactions and dispersing funds for the payment of salaries, military spending for efforts in the east, and covering the costs of the referendum. He said that the IMF has determined that they would be able to work with the Ministry of the Finance to balance the budget (which amounted to 14 billion FCFA, or approximately 26 million USD in FY 05) through the creation of a supplementary budget. At the same time, the IMF team noted they plan to work with the Ministry to develop an expenditure tracking system to ensure the proper accounting of revenues and expenditures.

11. (SBU) Camard also said that a second IMF team would come in early August to assess Chad's progress on its PRGF. He said that he expects Chad will not receive a positive review during that period, but believes the country can obtain a favorable outcome during the review in April or May 2006 when specific modalities in the budgetary process are worked out. He also noted that he expects Chad to reach its HIPC completion point by early next year. Tshiani was less optimistic about the country's chances under the two programs, pointing out that the IMF's optimism for the

country's budget stems from the assumption that additional financial assistance will be immediately provided from the European Commission and the African Development Bank. Tshiani said that he believes Chad will not be receiving a

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favorable review from IFI's anytime soon.

REFORM OF THE MINISTRY OF FINANCE

112. (SBU) Tshiani and Camard both noted progress was being made in modernizing the Ministry of Finance, but more resources and effort will be required to reform the Ministry and other institutions related to the budgetary process (including the Office of the Treasury and the College). Tshiani said that the World Bank has been working with the

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Ministry to implement a Financial Management System to help modernize and expedite the Ministry's activities. He also stated that the Bank has provided a technical advisor to the Ministry to help implement this project. The Treasury team asked if the Bank was pursuing the possibility of the technical integration of the College with the other relevant Ministries. Tshiani said that while the Bank has not discussed this idea, it should be explored. The Treasury team also pointed out that while a modernized financial system was an interesting idea, it still needed to be implemented properly and have resources devoted to its maintenance and up-keep.

COMMENT

113. (SBU) The World Bank and IMF clearly welcome the return of a resident Treasury advisor, which will facilitate coordination between the advisor and the IFI's on programs that affect the College. The importance of IMF and World Bank programs on the country's overall economic situation means that the Treasury Advisor will also have an understanding of the dynamics of the IFI's initiatives on the economy and the College's operations. The Embassy and Resident Advisor will also need to closely monitor any intentions to re-evaluate the Revenue Management laws, especially how military spending or other designations and interpretations of priority sectors will meet the goal of poverty alleviation. Any initiatives to modernize Chad's budgetary process will need to fit the Government's capacity to absorb and manage a computerization, the source of funding, and the resources available. The problem of the Government's public relations efforts on the expenditure of the oil revenues remains, with most players, such as the IFI's preferring to push the problem to the College, rather than the Government.

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